

## RESERVE QUESTIONS

Thanks to the participants in the EPA's June conference, and to the people that have phoned in with questions, many important issues about the Reserve have been raised. We have compiled the questions and answers we thought would be most useful to you.

### VERIFICATION

- Q. If the Reserve applicant's verification of conservation measures is not performed by the State, does the applicant have to use the EPA Conservation Verification Protocols?*
- A. No, applicants submitting verification to EPA are not required to use the Conservation Verification Protocols (CVP). However, we encourage utilities to follow the CVP so that the utilities will meet EPA's verification requirements. The CVP procedures are flexible enough that many utilities already meet the CVP's standards. For example, any conservation program that earns a utility less than ten allowances can be verified through engineering estimates. If an applicant chooses not to use the CVP and wants to use the utility's own verification methodology, we suggest communicating with EPA before applying to the Reserve to ensure that your methods are acceptable.
- Q. If the applicant is using verification of energy savings performed by its state regulatory authority, and the authority's performance-based rate adjustment provides for the rate adjustment to be phased in over time as documentation of savings becomes available, should the application reflect the full amount of its savings estimate or only the amount for which rate adjustments have been approved?*
- A. Where a state regulatory authority is verifying savings, only savings which are eligible for rate adjustments are currently eligible for allowances from the Reserve. If and when additional savings from those programs have been documented to the satisfaction of the state authority, the applicant is eligible for additional allowances reflecting these savings.
- Q. The first-year energy savings determined by the procedures in the Conservation Verification Protocols acts as a baseline for savings in subsequent years. Since not all the measures will be in place on January 1 of the first year, can the first year savings be annualized for subsequent-year calculations?*
- A. EPA recognizes that the Protocols do not presently address this topic. However, EPA is planning to issue further guidance on the subject later this year. Applicants are encouraged to complete their first year application and then receive corrected instructions later for subsequent years. Guidance on this issue may include some form of an annualized savings calculation.

## TIMING

*Q. If a DSM program commenced in the middle of the savings year, can the applicant claim allowances by annualizing the savings as if the program had been in operation for a full year?*

A. No. Allowances from the Reserve can be awarded only for documented savings. Even if the applicant's regulatory authority calculates a performance-based rate adjustment based on an annualized estimate of savings, allowances may be awarded only for verified savings.

*Q. If the applicant does not meet the least-cost planning (LCP) or net income neutrality (NIN) requirements until after its first compliance deadline, is it eligible for allowances from the Reserve for energy conservation or renewable generation from prior years?*

A. Yes. To the extent that allowances from the Reserve are still available, once a utility meets these eligibility requirements it is eligible for allowances based on qualifying energy conservation or renewable generation since January 1, 1992. Although a utility is ineligible to earn allowances based on qualifying energy conservation or renewable generation after its first compliance deadline (1995 or 2000), it can still apply for allowances earned before that deadline, even if did not meet the eligibility requirements until after the deadline. [Note: NIN requirement does not apply to renewable generation.]

*Q. If a utility does not initially own an affected unit but does so at a later date, can the utility retrospectively receive Reserve allowances back to 1992?*

A. The utility may not collect allowances during any time in which it did not own or partially own an affected unit. The utility may claim allowances for conservation savings or renewable generation for the year in which it owns the affected unit. Further, the conservation savings or renewable generation itself may have been initiated anytime after January 1, 1992; allowances may be claimed to the extent this savings or generation still persists up until the affected units compliance deadline (1995 for Phase I units, 2000 for Phase II units).

*Q. How long can the utility continue to receive allowances from the Reserve?*

A. The utility will receive the Reserve allowances from the date actual savings or generation are realized until the utility enters the Acid Rain Program, provided the savings or generation still persists. For a Phase I utility allowances may be claimed from 1992 through 1994. For a Phase II utility allowances may be claimed from 1992 through 1999. Although a utility can use the allowances any time from 1995 to 2010, they are only awarded up until the unit's compliance deadline.

- Q. Can you receive Credit for the same conservation measures each year you apply to the Reserve?*
- A. Yes, as long as savings persist and the utility's eligibility continues. Let's use the example of a commercial lighting retrofit program. In 1992 you did 456 installations which saved 21,132 MWh, for which you could receive credit. In 1993, your savings from 1992 persisted so you again saved 21,132 MWh, plus you did an additional 228 installations, which saved 10,566 MWh. So you saved a total of 31,688 MWh in 1993 and can receive credit for that 1993 savings.
- Q. Step 3 of the Reserve application asks the applicant to identify any affected unit owned or operated by the applicant by plant name. Does that unit need to be doing conservation as well?*
- A. No. We ask for the name of a plant with an affected unit owned by the applicant only to establish that the applicant in fact owns at least one affected unit. That unit can be Phase I or Phase II, and it doesn't need to be doing conservation or using renewable energy generation. Step 3 asks applicant to list the affected unit's Allowance Tracking System number. If the unit does not have an Allowance Tracking System number yet, list the ORIS and boiler numbers for identification.

## QUALIFIED MEASURES AND ELIGIBILITY

- Q. Utility energy efficiency programs may save energy not only at the customer's facilities but in transmission and distribution (T&D) as well, through reduced line losses. In applying for allowances from the CRER, can a utility claim credit for T&D energy savings? If so, how should such savings be reflected on the CRER application form?*
- A. Although reduced line losses generally cannot be used for eligibility calculations for the Reserve, reduced line losses due to qualified energy conservation measures are eligible for allowances from the CRER, provided such savings are documented. Such conservation generated reduced line losses can be calculated on a program-specific or system-average basis. Savings from conservation generated reduced line losses can be included in individual program savings listed on the form, or they can be listed on a separate line. In either case, the applicant should attach to the form an explanation of how conservation generated reduced line losses were calculated and reflected in the application. If an applicant's energy savings claims do not include conservation generated reduced line losses, it can apply for allowances attributable to reduced conservation generated line losses in a future application.
- Q. If a utility installs measures such as energy efficient lighting at its own facilities, does this meet the requirements of a qualified conservation measure for the Conservation and Renewable Energy Reserve?*

A. Section 73.81(a) of the Acid Rain regulations describe a qualified conservation measure as a demand-side measure ". . . implemented in the residence or facility of a customer to whom the utility sells electricity. . . ." EPA believes that the Clean Air Act's emphasis on net income neutrality was aimed towards creating incentives for demand-side measures that traditionally have led to losses in utility income through lost sales. Measures installed at utility facilities are typically considered "on the utility's side of the meter", and are not accounted for as demand-side measures for ratemaking or incentive purposes. Thus, unless a utility is metering and paying for electricity at its own facilities, efficiency measures installed at these facilities would not qualify for allowances from the Reserve. However, utilities may take advantage of emissions reductions from their own supply-side efficiency measures in the reduced utilization provision (§ 72.43) and may generally avoid emissions system-wide by utilizing these measures, thus decreasing their allowance needs.

*Q. Should the calculation for allowances earned by qualified renewable energy generation be based on gross generation or net generation?*

A. Renewable generation should be reported and allowances calculated based on net generation, i.e., the total amount of electric energy produced by the generating units at a generating station less the electric energy consumed at the generating station for station use. Reporting of net generation is consistent with the reporting requirement used by the Energy Information Administration (EIA), and will allow applicants to the Reserve to use the appropriate EIA form as documentation of the qualified renewable energy generated. (Note: Other types of documentation such as plant records are also acceptable.)

*Q. Is an independent power producer (IPP) that produces renewable energy eligible to apply to the Reserve if its holding company or any subsidiary of its holding company owns an affected unit?*

Answer: Yes (see § 73.82(a)(2)).

*Q. What happens if more than one applicant applies for allowances based on the same renewable energy generation?*

A. In the event that the IPP and the utility to which it is selling electricity both apply for allowances based on the same renewable energy generation, EPA will act on the applications on a "first-come first-serve" basis as determined by the order of date of receipt. If applications for allowances are received on the same date from more than one applicant for the same renewable energy generation, EPA will divide the allowances earned equally among all applicants whose applications for those allowances were received on that day unless otherwise directed by all such applicants. (see § 73.84(g))